1999 Mid-Year Financial Trends for Federally Insured Credit Unions

Region I (Albany)

FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS
DECEMBER 31, 1998 TO JUNE 30, 1999

HIGHLIGHTS

This report highlights the conditions and trends[1] of Region 1 credit unions at midyear 1999. The region's 1,398 credit unions have strong capital and earnings, declining delinquency, healthy liquidity, and positive growth in all major balance sheet components.

The conditions and trends include the following:

- Assets increased to $47.1 billion;
- Loans increased to $28.1 billion. Loans represent 60.5 percent of total assets;
- Investments increased to $17.3 billion. Investments represent 36.7 percent of total assets;
- Shares increased to $40.8 billion, with non-member deposits increasing by 11.5 percent to $53.3 million;
- Capital increased to $5.8 billion, and represents 12.3 percent of total assets;
- Delinquency continued to decline, with delinquent loans falling by $15.8 million to 0.8 percent of total loans;
- Profitability remained strong, with a return on average assets of 1.0 percent; and
- Liquidity remains positive, while borrowings increased to 1.0 percent of total shares and capital.

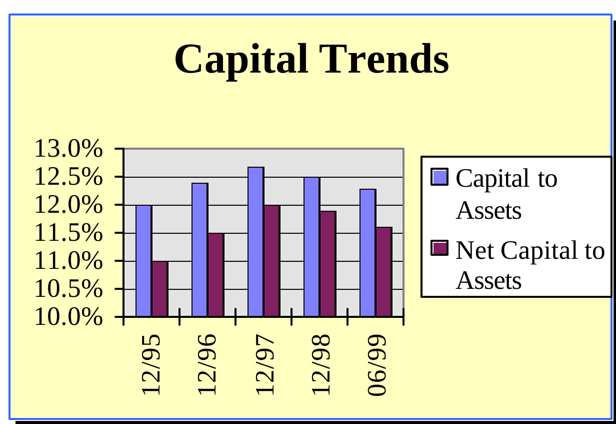
[1] This report cites annualized earnings and growth ratios.

- The following table recaps growth rates, in percentages and dollars, for the above key balance sheet components:

	Growth	
Category	*Percent*	*Dollars (billions)*
Assets	10.5	$2.4
Loans	7.3	1.0
Investments	17.7	1.3
Shares	10.8	2.1
Capital	5.8	0.2

CAPITAL

Reflecting national trends, capital remains strong with minimal declines in the gross capital and net capital ratios. The slight decline resulted from asset growth of 10.5% exceeding capital growth of 5.8%.

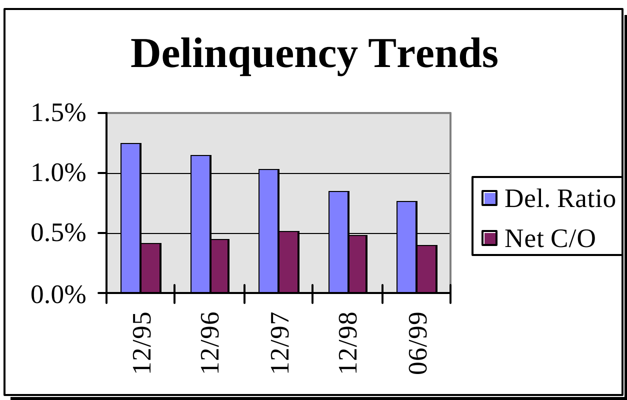


The region's capital and net capital ratios of 12.3 percent and 11.6 percent, respectively, remain higher than the national averages. Nationally, the gross capital ratio is 11.3 percent, while the net capital ratio is 10.7 percent.

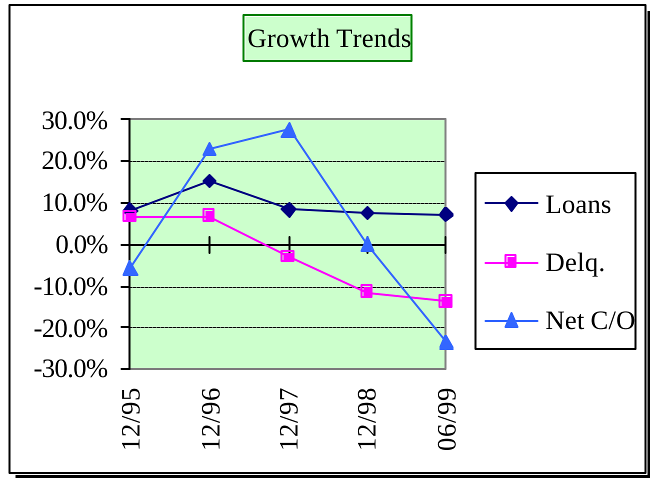
ASSET QUALITY

Total loans increased by 7.3 percent, slightly lower than 1998's loan growth rate of 7.6 percent. Investment growth of 17.7 percent continues to outpace loan growth. The delinquent loan and net charge-off levels remained stable.

The delinquent loans to total loans ratio continued to decline, equaling the national ratio of 0.8 percent. The region's ratio of net charge offs to average loans also declined to 0.4 percent, and remains slightly below the national ratio of 0.5 percent.



Net charge offs declined by 23.4 percent, following increases of 0, 28 and 24 percent in 1998, 1997, and 1996, respectively. Delinquent loans, which fell by 13.6 percent, are on pace to decline for the third consecutive year.



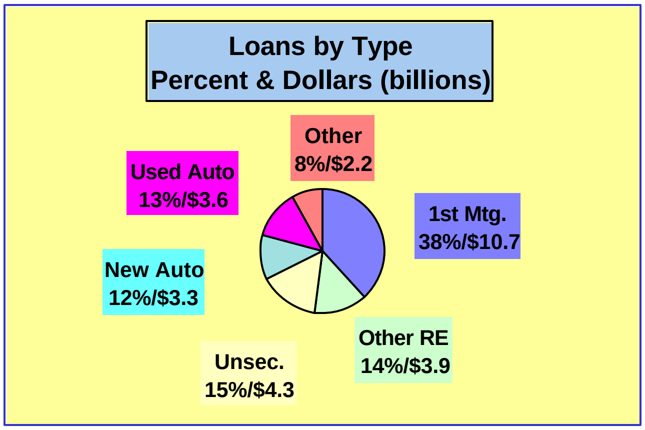
The amount of loans subject to bankruptcy declined by $32.5 million, an annualized rate of 97.7 percent. This follows a 17.4 percent decline in 1998.

The delinquency and net charge off trends continue to reflect the impact of the strong national and regional economies.

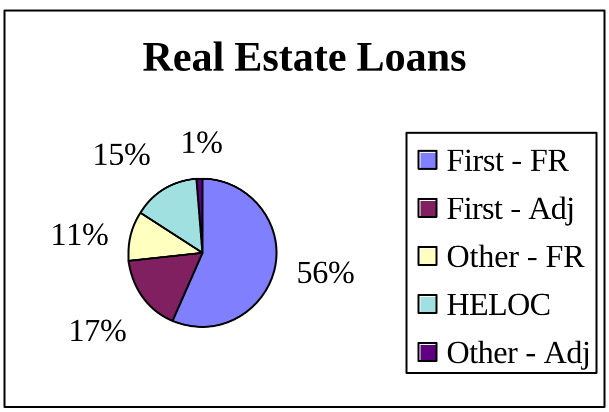
Loan Trends: The largest growth was in first mortgage loans. The $770 million increase in these loans represented 77.5 percent of the net increase in loans. This trend is reflective of the low interest rates experienced over the past year and the strong housing market. In general, members are also refinancing high rate, unsecured loans into mortgages which is evidenced by the declines in credit card and other unsecured loans.

	Growth	
Loan Category	**Percent**	**Dollars (millions)**
First Mortgages	15.5	770.1
Used Auto Loans	14.8	250.4
Other Member Loans	13.4	133.3
Other Real Estate	5.7	107.8
New Auto Loans	-1.8	-30.3
Other Unsecured Loans	-9.7	-129.0
Unsecured Credit Cards	-10.5	-100.8
All Other Loans	-16.4	-7.5
TOTAL	7.3	993.9

Below is the breakdown of loans by type:

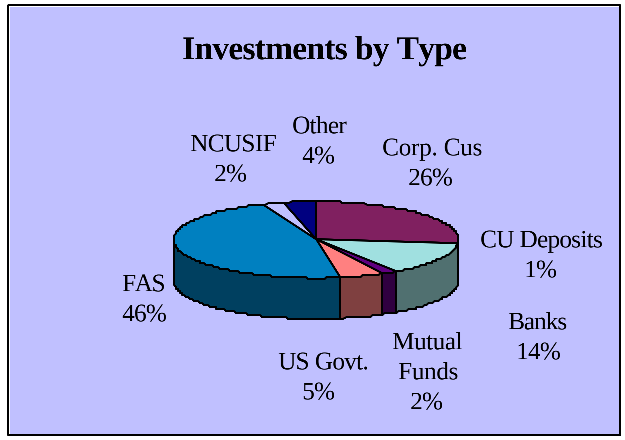


The region continues to have a significantly higher level of real estate loans than credit unions nationally. Real estate loans of $14.6 billion comprise 52 percent of all loans in the region, as compared to 38.1 percent nationally. The largest growth came in fixed rate, first mortgage loans which total 56 percent of all mortgages. The amount of real estate loans sold on the secondary market declined by 12.7 percent, to $840.9 million.

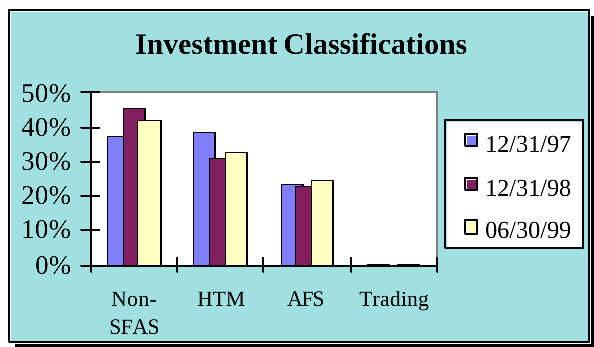


Investment Trends: Investment growth increased to 17.7 percent ($1.3 billion), compared to 14.3 percent in 1998. The largest increase, in dollars and percent, came in Federal Agency Securities which increased by 44.5 percent. Other categories experiencing large increases were mutual funds (28.4 percent) and share insurance fund deposits (17.7 percent).

US Government Obligations continued to decline significantly. These investments declined by 57.7 percent, following a 23.6 percent decline in 1998.

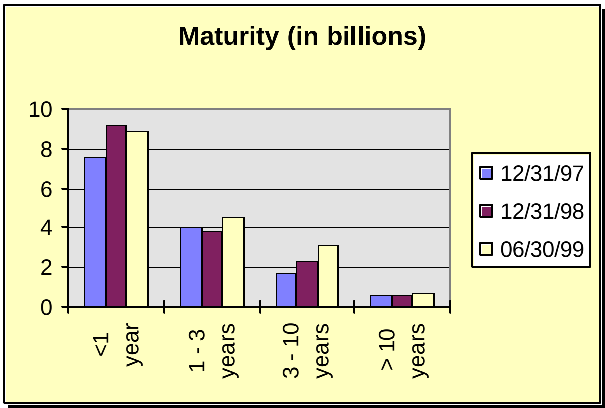


Below is the classification breakdown:



While the trading category makes up only 0.1 percent of total investments, these investments increased by $6.2 million, for an annualized rate of 212 percent. Other increases include available for sale investments (31.1 percent) and held to maturity investments (28.7 percent).

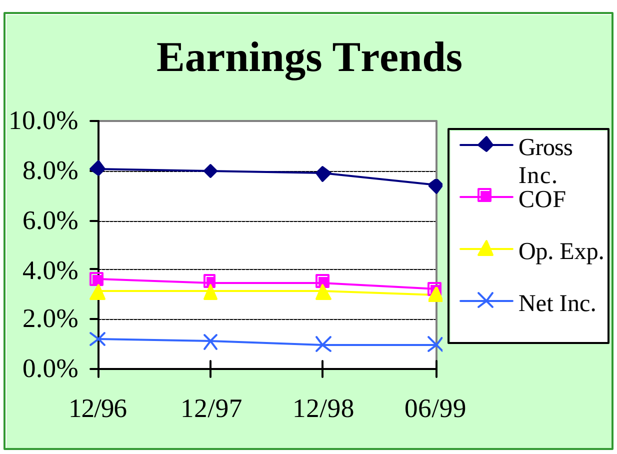
Credit unions reported substantial growth in short term (less than one year) and total investments in 1998. This reflected the additional liquidity needs for Y2K purposes. Investment growth continues to exceed loan demand and liquidity needs in 1999. As displayed in the graph below, credit unions invested the excess funds by laddering the portfolio and increasing the yield:



Region I credit unions continue to be fairly conservative with nearly 78 percent of investments maturing in less than three years. Short term investments currently amount to 21.8 percent of all shares.

EARNINGS

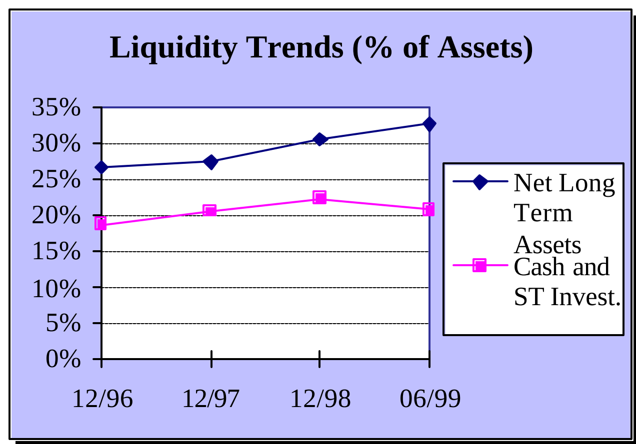
Region I credit unions continue to report a stable return on average assets of 1.0 percent. This is slightly higher than the national average of 0.9 percent.



These trends reflect the success of credit union management in pricing share and loan products. While the yield on assets declined, this was offset by reductions in the cost of funds and operating expenses.

LIQUIDITY

The net long-term assets to total assets ratio increased from the yearend 1998 level of 30.6 percent to 32.8 percent. This resulted from a 12.8 percent increase in real estate loans and growth in long term investments. Region I continues to exceed the national aggregate ratio of net long-term assets, which was 24.3 percent at midyear 1999. This mirrors the region's comparatively higher level of real estate loans.

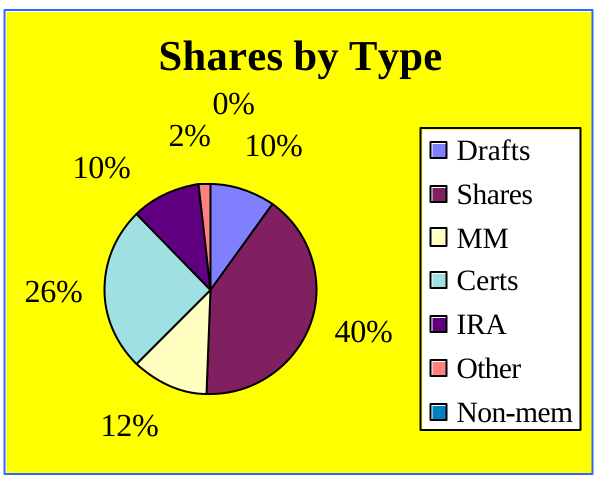


Cash plus short-term investments as a percentage of assets declined from 22.4 percent to 20.8 percent. Also, share growth of 10.8 percent funded loan growth of 7.3 percent and investment growth of 17.7 percent.

Shares increased by $2.1 billion to $40.8 billion. All share categories reported increases at midyear. The largest increases occurred in all other shares and non-member deposits. Regular shares increased by the largest amount, $1.2 billion. Share growth occurred primarily in accounts with maturities of less than a year ($2.2 billion).

Share Trends: Below is the distribution:

Share Type	***Amount (billions)***	***% growth***
Drafts	$4.1	3.2%
Regular	16.5	15.9%
Money Mkt	4.7	22.1%
Certificates	10.5	3.5%
IRA/Keogh	4.2	2.3%
Other	.7	34.1%
Non-member	.1	23.0%
TOTAL	$40.8	10.8%



Borrowing Trends: While still low, total borrowings increased by 127 percent to 1.0 percent of total shares and capital. This is an increase from 0.6 percent as of yearend 1998 and above the 0.4 percent national average.

This increasing trend will continue for the remainder of 1999 as credit unions secure additional funds for potential Y2K liquidity needs. Credit union's are also using borrowed funds to offset the increase in fixed rate real estate loans with a fixed rate, long term cost of funds.

SUMMARY

Trends in the region remain positive. Credit unions are healthy, growing, and have a strong bottom line. However, net long term assets are increasing and officials need to provide additional focus on Asset Liability Management issues.